



International Narcotics Control Strategy Report

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Argentina

Volume I: Drug and Chemical Control

I. Summary

Argentina is a transit country for cocaine from Bolivia, Peru and Colombia primarily to European destinations. Argentina is also a transit route for Colombian heroin en route to the U.S. (primarily New York). Due to its advanced chemical production facilities, Argentina is a source for precursor chemicals. According to Argentine Government (GOA) statistics, there was considerably more cocaine seized in the first three quarters of 2005 than during the same period in 2004. While the GOA secretariat in charge of prevention issues (SEDRONAR) reported a drop in marijuana seizures in 2005, seizures of coca leaf and precursor chemicals increased. Argentine law enforcement authorities have expressed concern that the potential for political turmoil in neighboring Bolivia or a weakening in that nation's commitment to combating narcotics trafficking could greatly increase the amount of narcotics transiting Argentina.

II. Status of Country

Argentina is not a major drug producing country, but law enforcement agencies continue to seize clandestine cocaine laboratories. Because of its advanced chemical production facilities, it is one of South America's largest producers of precursor chemicals. There have been several large seizures of cocaine in Europe that transited Argentina via shipping containers and commercial air carriers. Marijuana remains the most commonly smuggled and consumed drug, with cocaine (HCl) and inhalants ranked second and third. Bolivia is the primary source of narcotics entering Argentina, and narcotics also enter via Paraguay and Brazil. GOA law enforcement continues to intercept relatively small amounts of Colombian heroin destined for the United States. Seizures of amphetamine-type stimulants and ecstasy, a synthetic stimulant with hallucinogenic properties, are increasing.

III. Country Actions Against Drugs in 2005

Policy Initiatives. The government targets the trafficking, sale, and use of illegal narcotics. In 2005, the GOA passed legislation enforcing SEDRONAR's registry system of precursor chemicals. This legislation increased SEDRONAR's ability to regulate the distribution of precursor chemicals and imposed fines on those who transport or sell unregistered chemicals. Additionally, SEDRONAR completed the nation's first national drug prevention plan, emphasizing youth education and public awareness. The plan is now with President Kirchner, prior to seeking approval of Argentina's Congress.

Accomplishments. From January 2005 to September 2005, the USG—funded Northern Border Task Force (NBTF) seized in excess of 54,690 kilograms of solid illicit chemicals and 88,020 liters of liquid illicit chemicals, a significant increase over the same period in 2004. The NBTF and Group Condor seized 732 kilograms of cocaine, including base, in the first three quarters of 2005 as compared with 565 kilograms of cocaine during the same period of 2004.

According to statistics provided by Argentine federal and provincial police forces, in the first ten months of 2005, GOA law enforcement seized ten cocaine laboratories. Local news sources indicate that a much greater number of laboratories have been seized in 2005, but government statistics for 2005 are incomplete as of this writing. Nevertheless, it is clear that the increase in domestic cocaine production that started in 2003 has continued.

According to SEDRONAR, 3,580 kilograms of cocaine were seized nationally in the first three quarters of 2005, compared to 2,155 kilograms of cocaine during the same period in 2004. SEDRONAR reported only 21,618 kilograms of marijuana seized nationally in the first three quarters of 2005, compared to 43,920 kilograms during the same period in 2004. SEDRONAR also reports that 38.6 metric tons of coca leaf were seized nationally during the first three quarters of 2005, up from the 29.8 metric tons seized during the same period in 2004.

Law Enforcement Efforts. The Ministry of the Interior, in coordination with SEDRONAR, directs federal narcotics policy. The primary federal forces involved are the Federal Police, the Gendarmeria, Aduanas (Customs), the National Air Police (PSA), and the Prefectura Naval (Coast Guard). Provincial police forces also play an integral part in counternarcotics operations. Argentina's security forces face continuing budget limitations which have hampered investment in training and equipment. The delay between arrest and final judicial dispensation and a lack of judicial transparency undermines confidence in the legal system. Also, weak coordination between law enforcement agencies lessens GOA effectiveness.

Corruption. The GOA is publicly committed to fighting corruption and prosecuting those implicated in corruption investigations. Two cases involving GOA law enforcement and security officials will serve as opportunities for the Argentine Administration to demonstrate its commitment against both corruption and narcotics trafficking. One case involves four members of the Federal Police's counternarcotics unit stationed in Salta accused of smuggling 116 kilograms of cocaine in August, 2005. Another case, involving 60 kilograms of cocaine sent to Spain as unaccompanied baggage on an Argentine air carrier, highlighted a breakdown in airport security and caused the GOA to remove airport security from military control. As these cases work their way through the court system they will serve as indicators of the Administration's commitment to eliminating institutional corruption in its law enforcement agencies.

Agreements and Treaties. Argentina is a party to the UN Convention Against Transnational Organized Crime and two of its protocols (trafficking in persons and alien smuggling), and has signed but not yet ratified the third protocol (firearms). The GOA has bilateral narcotics cooperation agreements with many neighboring countries. The United Kingdom, Germany, Australia, France and Italy provide limited training and equipment support. Argentina is a party to the 1988 UN Drug Convention.

Cultivation/Production. Illicit cultivation of marijuana remains negligible and no other narcotics are cultivated in Argentina. There were several clandestine cocaine laboratories seized in 2005, but the amount of cocaine produced annually in Argentina is still small. However, there is evidence that shows that more organizations are moving to Argentina due to the traffickers' capability to better control final-product purity, precursor chemicals, and the decreased risk in shipping. With narcotics traffickers looking to raise the quality of Bolivian cocaine, Argentina is becoming a more appealing market to provide greater return.

Drug Flow/Transit. The bulk of cocaine and marijuana enters Argentina via Bolivia utilizing the remote and often rugged land border between Bolivia and the provinces of Salta and Jujuy. Narcotics smugglers also move cocaine and marijuana across the river border between Paraguay and the provinces of Misiones and Corrientes. Heroin and some cocaine enter Argentina via commercial aircraft. GOA officials are becoming increasingly concerned about the use of small private aircraft to carry loads of narcotics into Argentina from Bolivia and Paraguay. The DEA Country Office believes the highest volume of narcotics transits Argentina via containers passing through Argentina's maritime port system. Narcotics also are shipped out of Argentina using commercial aircraft, and in some cases, by cruise ship passengers.

Demand Reduction Programs. SEDRONAR is charged with coordinating the GOA's demand reduction efforts. SEDRONAR recently completed work on Argentina's first national drug plan and hopes to see the plan passed into law in 2006. SEDRONAR recently completed a pilot drug education program targeting school children ages 10 to 14 in two provinces.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. The cornerstone of the U.S. efforts in Argentina is the Northern Border Task Force (NBTF) in Salta and Jujuy Provinces. The NBTF fosters coordination between GOA law enforcement agencies and assist in disrupting the flow of narcotics entering the country from Bolivia. In addition to the NBTF, DEA and the State Department's Bureau for International Narcotics and Law Enforcement Affairs (INL) provide equipment and training opportunities to increase the effectiveness of GOA law enforcement personnel.

The Road Ahead. Argentine law enforcement officials fear that the growing political instability in Bolivia will weaken counternarcotics operations in Bolivia and result in a major increase in trafficking of cocaine and coca leaf into Argentina. The GOA is taking concrete steps to combat both narcotics trafficking and drug use, and the U.S. will continue to assist and encourage the GOA in this process. Possible areas of further cooperation include expanding the task force program to include the creation of a Tri-Border Task Force in the province of Misiones and a Port of Buenos Aires Task Force to focus on maritime container traffic. The U.S. will also continue encouraging the GOA to work toward improving its radar system.

Volume II: Money Laundering and Financial Crimes

Argentina is neither an important regional financial center nor an offshore financial center. Money laundering related to narcotics trafficking, corruption, contraband, and tax evasion is believed to occur throughout the financial system, in spite of the efforts of the Government of Argentina (GOA) to stop it. The financial sector's slow recovery from the 2001-02 financial crisis and post-crisis capital controls may have reduced the incidence of money laundering through the banking system. However, transactions conducted through non-bank sectors and professions, such as the insurance industry, financial advisors, accountants, notaries, trusts, and companies, real or shell, remain viable mechanisms to launder illicit funds. Tax evasion is the predicate crime in roughly two thirds of all Argentine money laundering investigations. Argentina has a long history of capital flight and tax evasion, and Argentines hold billions of dollars offshore, much of it legitimately earned money that was never taxed.

The GOA took several important steps to further combat money laundering and terrorist financing in 2005, including the ratification of the UN International Convention for the Suppression of the Financing of Terrorism and the Inter-American Convention Against Terrorism, and regulatory changes to improve its anti-money laundering and counterterrorist financing systems. Over 100 cases of suspected money laundering have now been passed to prosecutors by the Unidad de

Informacion Financiera (UIF), Argentina's financial intelligence unit (FIU). The Central Bank of Argentina (BCRA) established a specialized bank examination unit devoted specifically to money laundering, and expanded its requirements for financial institutions to check transactions against the terrorism lists of the United States, European Union, Great Britain, and Canada, in addition to the UN 1267 Sanctions Committee consolidated list. The two chambers of Congress passed different versions of a law that would lift all bank secrecy and some fiscal secrecy provisions that have prevented the UIF from obtaining information needed for its investigations.

Argentina's primary anti-money laundering legislation is Law 25.246 of May 2000. Law 25.246 expands the predicate offenses for money laundering to include all crimes listed in the Penal Code, sets a stricter regulatory framework for the financial sectors, and creates an FIU, the Unidad de Informacion Financiera (UIF), under the Ministry of Justice and Human Rights. This law lay down requirements for customer identification, record keeping, and reporting of suspicious transactions by all financial entities and businesses supervised by the Central Bank, the Securities Exchange Commission (Comisión Nacional de Valores or CNV), and the Superintendence of Insurance (Superintendencia de Seguros de la Nación or SSN). The law forbids the institutions to notify their clients when filing suspicious financial transactions reports, and provides a safe harbor from liability for reporting such transactions. Reports that are deemed by the UIF to warrant further investigation are forwarded to the public prosecutors' office. As of November 2005, the UIF had received 1416 reports of suspicious or unusual activities, forwarded 102 suspected cases of money laundering to prosecutors for review, and assisted prosecutors with 79 cases.

The UIF, which began operating in June 2002, has issued resolutions widening the range of institutions and businesses required to report of suspicious or unusual transactions to the UIF beyond those identified in Law 25.246. Obligated entities include the tax authority (Administracion Federal de Ingresos Publicos or AFIP), banks, currency exchange houses, casinos, securities dealers, dealers in art, antiques, and precious metals, insurance companies, postal money transmitters, accountants, and notaries public. The resolutions issued by the UIF also provide guidelines for identifying suspicious or unusual transactions. In 2005, the UIF eliminated a previous resolution requiring that obligated entities only report suspicious or unusual transactions that exceeded 50,000 pesos (approximately \$16,400); UIF Resolution 4/2005 now requires entities to report all suspicious or unusual transactions regardless of their amount. Suspicious or unusual transactions are now reported directly to the UIF; prior to 2004, all suspicious transactions below a 500,000 peso threshold were first reported to the appropriate supervisory body for pre-analysis due to budget constraints at the UIF. Obligated entities are required to maintain a database of all information related to client transactions, including suspicious or unusual transaction reports, for at least five years and must respond to requests from the UIF for further information within 48 hours.

The Central Bank requires by resolution that all banks maintain a database of all transactions exceeding 10,000 Argentine pesos (approximately \$3,350). This data is submitted on a periodic basis to the BCRA. Some banks make this information available to the UIF on request; others do not, citing financial secrecy laws. Law 25.246 requires banks to make available to the UIF upon request records of transactions involving the transfer of funds (outgoing or incoming), cash deposits, or currency exchanges that are equal to or greater than 10,000 pesos (approximately \$3,300).

The UIF further receives copies of the declarations to be made by all individuals (foreigners or Argentine citizens) entering or departing Argentina with over \$10,000 in currency or monetary instruments. These declarations are required by Resolutions 1172/2001 and 1176/2001 issued by the Argentine Customs Service in December 2001. A law (Law 22.415/25.821) that would have provided for the immediate fine of 25 percent of the undeclared amount, and for the seizure and forfeiture of the remaining undeclared currency and/or monetary instruments, passed the

Argentine Congress in 2003, but was vetoed by the President due to alleged conflicts with Argentina's commitments to MERCOSUR (Common Market of the Southern Cone).

Argentina's Narcotics Law of 1989 authorizes the seizure of assets and profits, and provides that these or the proceeds of sales will be used in the fight against illegal narcotics trafficking. Law 25.246 provided that proceeds of assets forfeited under this law can also be used to fund the UIF.

The Financial Action Task Force (FATF) conducted a mutual evaluation of Argentina in October 2003. The mutual evaluation report was accepted at the FATF plenary in June 2004 and at the plenary meetings of the Financial Action Task Force for South America (GAFISUD) in July 2004. While the evaluation of Argentina showed the UIF to be functioning satisfactorily, it identified some weaknesses in Argentina's current anti-money laundering legislation, as well as the lack of terrorist financing legislation or a national coordination strategy. There have been only two money laundering convictions in Argentina since money laundering was first criminalized in 1989, and none since the passage of Law 25.246 in 2000. Under a strict interpretation of the law, a prior conviction for the predicate offense is required in order to obtain a conviction for money laundering.

Although Law 25.246 of 2000 expands the number of predicate offenses for money laundering beyond narcotics-related offenses and created the UIF, it limits the UIF's role to investigating only money laundering arising from six specific crimes. The law also defines money laundering as an aggravation after the fact of the underlying crime. A person who commits a crime cannot be prosecuted for laundering money obtained from the crime; only someone who aids the criminal after the fact in hiding the origins of the money can be guilty of money laundering. Another impediment to Argentina's anti-money laundering regime is that only transactions (or a series of related transactions) exceeding 50,000 pesos can constitute money laundering; transactions below 50,000 pesos can constitute only concealment, a lesser offense.

The strict interpretation of the secrecy provisions of Law 25.246 also inhibits the UIF's ability to request additional information from obligated entities. Although Law 25.246 provides that the UIF is able to request information from obligated entities if this information is deemed useful to the UIF in carrying out its functions, it fails to resolve conflicts with strict "banking, fiscal, and professional" confidentiality provisions in other laws that require court orders to request information not directly related to a suspicious transaction report. Several government authorities, such as AFIP (the tax authority, which is responsible for overseeing the customs agency and dealing with tax fraud and other economic crimes), reportedly have been uncooperative in responding to the UIF's requests for assistance, citing these confidentiality provisions. An exception is the Central Bank, which generally cooperates with the UIF by providing regulatory information needed for money laundering investigations. As of November 2005, the UIF had requested additional information from the AFIP in 419 cases and from the Central Bank in 310 cases.

Legislation that would lift all banking secrecy restrictions and partially lift fiscal secrecy restrictions passed both houses of the Congress in 2005—but in different forms. The two bills need to be reconciled and the legislation must be signed by the President before becoming law. The passage of this law would lift or reduce many restrictions that have prevented the UIF from obtaining information needed for money laundering investigations.

Terrorism and terrorist acts are not specifically criminalized under Argentine law. Because these acts are not autonomous offenses, terrorist financing is not a predicate offense for money laundering. In 2005, Argentina ratified the UN International Convention for the Suppression of the Financing of Terrorism and the Inter-American Convention Against Terrorism, but it has not yet passed domestic legislation. Several bills have been introduced in the Congress to implement the provisions of those treaties under Argentine law, but there have not yet been votes on any of these draft laws and the GOA has not yet indicated which, if any, of these bills it will support. In

an attempt to close this gap, the Central Bank issued Circular 4863 in 2005 that requires banks to report any detected instances of the financing of terrorism. However, bankers have complained that the regulation is not backed by any legal definition of what constitutes terrorist financing in Argentina, and that the absence of domestic legislation means that they are not protected from lawsuits by clients if they report suspected cases of terrorist financing.

The Central Bank of Argentina issued Circular B-6986 in 2004, instructing financial institutions to identify and freeze the funds and financial assets of the individuals and entities listed on the list of Specially Designated Global Terrorists designated by the United States pursuant to E.O. 13224. It modified this circular with Resolution 319 in October 2005, which expands Circular B-6986 to require financial institutions to check transactions against the terrorist lists of the United Nations, United States, European Union, Great Britain, and Canada. No assets have been identified or frozen to date.

Working with the United States Department of Homeland Security's Office of Immigration and Customs Enforcement (ICE), Argentina began the process of establishing a Trade Transparency Unit (TTU) that will examine anomalies in trade data that could be indicative of customs fraud and trade-based money laundering. This is also a positive step towards complying with FATF Special Recommendation VI on Terrorist Financing via alternative remittance systems. Trade-based systems such as hawala often use fraudulent trade documents and over and under invoicing schemes to provide counter valuation in value transfer and settling accounts.

The GOA remains active in multilateral counternarcotics and international anti-money laundering organizations. It is a member of the Organization of American States Inter-American Drug Abuse Control Commission (OAS/CICAD) Experts Group to Control Money Laundering, the FATF, and GAFISUD. The GOA is a party to the 1988 UN Drug Convention, the UN International Convention for the Suppression of the Financing of Terrorism, the Inter-American Convention on Terrorism, and the UN Convention against Transnational Organized Crime, and has signed but not yet ratified the UN Convention Against Corruption. Argentina has been a member of the Egmont Group since July 2003 and participates in the "3 Plus 1" Counter-Terrorism Dialogue between the United States and the Triborder Area countries (Argentina, Brazil and Paraguay). The UIF has signed memoranda of understanding regarding the exchange of information with a number of financial intelligence units, including Australia, Belgium, Bolivia, Brazil, Chile, Colombia, El Salvador, Guatemala, Honduras, Panama, Paraguay, Peru, Romania, Spain, and Venezuela. The GOA and the USG have a Mutual Legal Assistance Treaty that entered into force in 1993, and an extradition treaty that entered into force in 2000. With strengthened mechanisms available under the Law 25.246, the ratification of the UN International Convention for the Suppression of the Financing of Terrorism, and increased reporting requirements issued by the UIF, Argentina seems poised to prevent and combat money laundering effectively. However, several legislative and regulatory changes would significantly improve the anti-money laundering/counterterrorism finance regime in Argentina, particularly the passage of domestic legislation that criminalizes the financing of terrorism. To comply with the latest FATF recommendation on the regulation of bulk money transactions, Argentina also will need to review the legislation vetoed in 2003 to find a way to regulate such transactions consistent with its MERCOSUR obligations.

To comport with international standards established by the Financial Action Task Force to which Argentina, as a member of the FATF, is committed to honor, the Government of Argentina needs to amend its anti-money laundering legislation to state that any person who commits a crime and then launders the illicit proceeds of that crime is prosecuted for money laundering. The final passage of pending legislation should reduce disputes over information sharing between the UIF, the financial sector, the Central Bank, the tax agency (AFIP), and other regulatory agencies. In doing so, the Government of Argentina will need to balance the concerns of the UIF and judicial authorities for quick and efficient access to such information in aid of legitimate investigations of suspected money laundering, and the need to stringently protect that information from disclosure or use for other purposes, which remains a major concern of the financial sector. Other issues

need to be resolved for anti-money laundering efforts to succeed. The lack of coordination and cooperation between GOA agencies, and the lack of a national strategy on money laundering that would link and coordinate GOA resources devoted to intelligence and to counternarcotics and anti-financial crime efforts hinders the separate efforts of the different agencies. There are also needs for forceful sanctioning of officials and institutions that fail to comply with the reporting requirements of the law, the pursuit of a training program for all levels of the criminal justice system, and the provision of the necessary resources to the UIF to carry out its mission. Additionally, there is a need for increased public awareness of the problem of money laundering and its connection to narcotics, corruption, and terrorism.